Microenterprise

Making Microenterprise Development a Part of the Economic Development Toolkit

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Introduction[1]

Growth in the number of microenterprise programs has been tremendous in recent years. The 1996 Aspen Institute Directory of U.S. Microenterprise Programs reported the existence of 328 programs, up from 195 in 1994 and 108 in 1992. In many places, these programs are being implemented with economic development goals in mind. However, while growth in this strategy has been great, the number and size of programs is very small relative to other economic development strategies. How does the microenterprise strategy compare with other economic development techniques and why is it so often overlooked?

In this paper we examine the microenterprise strategy in the context of other economic development tools, using two methods. First, we look at a range of traditional economic development indicators to compare this strategy with more traditional economic development tools. Second, we examine the economic development outcomes this strategy produces that are not captured using traditional evaluation techniques. We argue that the microenterprise strategy is appropriate economic development for many regions, and that this strategy performs best when it is integrated into a larger plan for economic revitalization. However, many economic development planners and policy makers are either unaware of the microenterprise strategy or fail to appropriately incorporate it into their overall economic development plan. Although the microenterprise strategy is competitive with other economic development strategies on some measures, we also argue that traditional indicators fall short of describing how microenterprise programs contribute to economic development. As a result, a more qualitative analysis is required. Based on our findings, we recommend a strategy that consists of: educating economic development planners and policy makers; integrating microenterprise development into a larger

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economic development plan for a distressed region; and evaluating the strategy using appropriate measures.

This paper is divided into four main sections. We first discuss our methodology and the choice of our case study programs. In the second section, we look at the microenterprise strategy using traditional quantitative evaluation tools. We find that the cost per direct job created for microenterprise development is comparable to traditional economic development strategies. In the third section, we examine why the microenterprise strategy is often overlooked by economic development practitioners. We suggest that this neglect may be due to the long time horizon of microenterprise, the misconception that microenterprises do not impact the local economy, and the small scale of these programs.

Given that the microenterprise strategy does not perform well using some traditional economic development indicators, such as number of jobs created, we then look at this strategy using qualitative methods. We examine how microenterprise practitioners view their economic development work, and discuss one particular case where microenterprise has been embraced by a state economic development office. The paper concludes with policy recommendations.

Methodology and Choice of Case Study Programs

Case studies of six mature microenterprise programs constitute the core of this work. The six programs chosen are located in economically distressed areas, and were examined to assess the potential of the microenterprise strategy as a tool to alleviate regional economic distress. We interviewed 83 microentrepreneurs about their experiences with their particular microenterprise program, as well as with self-employment in general. A survey was administered to these entrepreneurs in order to obtain broader data about microenterprise

program clients in general. We complement our original research with a review of the economic development literature in order to make comparisons between the microenterprise strategy and other economic development strategies. Eighteen field experts and policy makers were also interviewed in order to gain their perspectives on the economic development work that microenterprise programs do.

The six programs selected for this research are as follows:

- The Institute for Social and Economic Development (ISED), Iowa
- The Northeast Entrepreneur Fund (NEF), Minnesota
- West Company (West), Mendocino County, California
- Women Entrepreneurs of Baltimore (WEB)
- Women's Economic Self-Sufficiency Team (WESST Corp), New Mexico
- Working Capital, Lawrence, Massachusetts

The microenterprise literature distinguishes between credit-led programs (those that define their principal product as credit and focus on making loans) and training-led programs (those that focus on training and tend to have intensive and frequent interactions with their clients) (Burrus and Stearns 1997). Of the programs studied here, ISED, West, WEB, and WESST are training-led. ISED makes no loans directly, although it does help its clients to access credit through other sources. Mary Mathews, President of NEF, calls her program a training-led credit program, and Working Capital is the most credit-led of all the case study programs. Credit-led organizations tend to target a broader client base than do training-led programs. They do serve individuals living below the poverty line, but also reach out to low- and moderate-income individuals who are self-employed and do not have access to conventional credit. All of these programs provide some training although the format and amount varies widely. At the high end, WEB requires clients to complete 108 hours of classroom training in order to remain eligible for program services, including lending. At the low end, Working Capital training takes place informally and occurs primarily within borrower groups.

We also considered other criteria when choosing our case study programs. We chose programs that have:

- been in existence for at least five years, giving them a long enough track record to be studied;
- had relatively stable leadership, allowing for institutional memory; and
- maintained solid records since they began operations.

Although our selection of programs is somewhat biased in that we only chose the most mature programs, our goal was to describe the potential of the microenterprise *strategy*. This goal is best accomplished by examining programs that have been in existence the longest, and have refined their methods with experience. Table 1 illustrates some of the important characteristics of our case study programs.

Table 1. Characteristics of case-study programs

	ISED	NEF	WEB	WEST	WESST Corp	Working Capital*
1995 operating budget	$1,200,000	$550,000	$358,000	$505,000	173,000	$1,367,129
Program start date	1988	1989	1989	1989	1988	1990
Target population	Low-income, welfare recipients, & distressed communities	Unemployed, underemployed men and women in region	Women	Low-income women and minorities	Low-income women and minorities	Micro-entrepreneurs in low income urban and rural communities
Geographic area served	State of Iowa	Northeast Minnesota	Baltimore area	State of New Mexico	Mendocino County, CA	MA, ME, NH, VT, DE
Lending Offered	None	Individual lending to $25,000	Individual and peer lending	Individual lending	Individual lending to $5,000	Peer lending
Percent women/men	63/37	46/54	100/0	94/6	70/30	66/34

Source: 1996 Directory of U.S. microenterprise Programs; Program data

* These numbers reflect the entire Working Capital program, not just Lawrence

Evaluating Microenterprise: Quantitative Analysis

In this section, we conduct a review of recent literature in order to examine how the microenterprise strategy compares with other economic development strategies on quantitative indicators. Perhaps the single most often cited program performance standard for economic development programs is the total cost per job created. It is therefore illustrative to examine the

cost per job created in mature microenterprise programs as compared with more traditional economic development strategies. In this section, we discuss the cost per job created for a number of such strategies, and find that the costs for microenterprise development are comparable to more traditional strategies.

Industrial Recruitment

The most traditional forms of economic development fall under the broad category of *industrial recruitment*. Such strategies attempt to attract new (or maintain existing) firms to a particular region. The primary stated goal of these programs is to create (or retain) jobs. The mechanisms for this kind development are well known, and include such incentives as tax credits and abatements, worker training programs, infrastructure investments, and site preparation.

Timothy Bartik (1992) found that state and local taxes have a significant and negative impact on local business activity, contrary to the commonly held perception that local taxes are such a small part of firm expenses that they have no impact on business activity. He computes the annual cost per job created by general business tax reductions as "probably in the range from $1,906 to $10,800." That is, for a single job to be created, tax cuts would have to be engineered in this range.

Milward and Newman (1989) examined a number of recent incentive packages assembled for automobile plants in the Midwest. They discovered a wide range of incentives offered, including those mentioned above. For the six "deals" they examined, they found a cost per factory job created ranging from $11,000 to $50,580. The authors recognize that they have only measured the costs incurred for the total number of direct jobs created. They presume that the actual multiplier impact on the local economy is greater. Although Bartik used regression analysis, and Milward and Newman used a case study methodology, what is revealed in these

two analyses is the wide range of costs per job created in the traditional *industrial recruitment* economic development strategy.

Business Incubation

Another popular "next wave" economic development tool has been *business incubation.* In a 1997 study funded by the Economic Development Administration, Molnar et al examine the seven-year results of business incubators. Their findings reveal a public subsidy per direct job created of between $1,500 and $2,000. Other monies have been leveraged against this public support, so the actual total cost per job created is likely higher, although not revealed in this study.

Infrastructure Investment

At the Federal level, a fair amount of funds have been historically allocated (primarily through EDA's Public Works Program) for *infrastructure investment.* Such programs provide grant and loan financing to develop the physical infrastructure necessary for economic redevelopment, and are also conceived as job creation strategies. In a May 1997 performance evaluation of the Public Works Program, Burchell et al (1997b) found that the total cost per job created was $4,857. This figure includes leveraged private capital as well as the initial EDA funds expended.

Table 2. Total cost per job, Defense Adjustment Program

	Completed Projects	Total Jobs	EDA cost per job	Total cost Per job
Defense Construction	49	30,870	$8,052	$12,045
Capacity Building (TA only)	31	1,952	$13,633	$19,393
RLF (complete)	16	7,977	$3,312	$3,822
RLF (in process)	21	3,772	$4079	$5,439

Source: Burchell et al (1997a: 28)

Another EDA program, the Defense Adjustment Program, provides both *infrastructure investment* and *revolving loan fund (RLF)* money for military installation conversions. As shown in Table 2, Burchell et al (1997a) found that the total cost per job created ranged from $3,822 in

the completed RLFs to $19,393 in the capacity building programs. It should be noted that RLFs become increasingly less expensive over time, as the initial capitalization is repaid, and funds are re-lent. Revolving loan funds are discussed separately, below, because of their comparability to the microenterprise strategy.

Revolving Loan Funds

Revolving Loan Funds are the closest traditional economic development strategy to microenterprise development, yet there are also significant differences. A revolving loan fund (RLF) utilizes a fixed capital investment that is repeatedly loaned as prior loans are repaid. Distinct from traditional financing mechanisms, RLFs do not seek profit on individual loans. Rather, RLFs are often established to meet a credit need in sectors or for investors where traditional financing is not available. These purposes align RLFs with microenterprise development.

Generally, revolving loan funds are used to make loans to businesses that target a particular sector in a distressed economic region as part of an overall redevelopment plan. They are established with a grant of public funds that are often matched with local (private) support. A key component of EDA's RLFs is that they cannot be used in lieu of traditional sources of financing; they are intended to meet the financing needs of firms that cannot access other forms of credit.

Given that revolving loan funds tend to be a structural adjustment tool, loans are often large (as large as $250,000 in some cases), and tend to concentrate in manufacturing sectors. These characteristics cause them to differ from the microenterprise strategy. For example, the Arrowhead Regional Development Commission (ARDC) in northeast Minnesota - where NEF operates - has made 51 loans between $25,000 and $100,000 (as of March 1998) with its EDA

RLF. Of those 51 loans, only four were in default. A fourth capitalization of the loan fund is underway with a $500,000 grant from EDA, which will leverage $20,000,000 in private capital, according to the loan fund manager. Although most of the loans made have been in the manufacturing sectors, some loans have been made in the tourism/resort sector, another targeted sector of the ARDC.

Because most RLF loans are required to be in subordinate positions to other creditors (such as traditional banks), borrowers come to an RLF with a well established business plan, often an ongoing business, and the experience of having dealt with lenders before. Microenterprise clients tend to be much less sophisiticated borrowers. Many do not even have a personal bank account. They are typically in start-up businesses, and often have no formalized business plan. Although microentrepreneurs may have experience with traditional credit institutions, their credit needs are far smaller than those of RLF borrowers.

The most striking difference between microenterprise programs and RLFs, however, is in non-lending support. Microenterprise programs spend the bulk of their resources on training and technical assistance. A 1991 report generated by the Mott Foundation found that microenterprise programs spent between $110 and $2,000 per client on technical assistance (1994 Update, 4). And, according to a 1994 report on the Self-Employment Learning Project[2], programs allocate between 21 and 88 percent of their total budgets to training activities. Many clients do not obtain financing through microenterprise programs, and those that do are carefully coached through the borrowing process. Some programs, such as West Company, require that borrowers continue to engage in technical assistance through the term of the loan. For these individuals, the knowledge

[2] The Self-Employment Learning Project (SELP) is a longitudinal study of microentrepreneurs and microenterprise programs sponsored by the Aspen Institute.

they obtain about running a business is as important - if not more important - than the financing they obtain.

RLFs do not provide anywhere near this level of technical assistance. At the ARDC, clients who need specialized technical assistance (a rare occurrence, according to the RLF administrator) are referred to another agency, such as an SBDC or a community college, for help. This RLF maintains no staff to provide technical assistance. It strictly provides the crucial gap financing for firms in targeted sectors. While other RLFs may provide varying levels of business assistance, their primary function is strictly outside the realm of training.

Microenterprise Development

Microenterprise development has a comparable cost per job created to these more traditional forms of economic development. One of our case-study programs (NEF) was able to provide us appropriate program data. Their average cost[3] per business assisted is approximately $8,800. On average, NEF-assisted businesses create or retain 1.8 actual jobs, so the program estimates a cost per job of $4,900. NEF's average financing per business financed is $9,000, which yields a cost per job for financing of $5,000.

Two of the seven programs studied in the Aspen Institute's Self-Employment Learning Project (SELP) collected data sufficient to compute the average cost per job. For ISED that figure was $4,114, and for Women Venture it was $6,155. As shown in Table 3, these results compare well with the traditional economic development strategies discussed above. On this measure, microenterprise development is well within the scope of other economic development strategies.

[3] Computed as the program's total budget divided by the number of businesses served. This includes the operating budget (training, TA, loan fund administration, and other overhead), but no loan capital.

Table 3. Cost per job for various economic development strategies

Type of economic development	Cost per job
Industrial Recruitment	
Tax cut only	$1,906 to $10,800
Automobile Plant Attraction	$11,000 to $50,580
Business Incubation	
Business Incubation Works	$1,500 and $2,000
EDA-Sponsored Programs	
Public Works Program	$4,857
Defense Adjustment Program	$3,822 to $19,393
Microenterprise Development	
NEF	$4900 to $5000
ISED	$4,114
Women's Ventures	$6,155

Why the Microenterprise Strategy is Overlooked

Although we observe a cost for microenterprise development that is comparable to more traditional economic development strategies, many economic development officials have failed to consider the microenterprise strategy. Economic development policy and program officials fall into three categories. First are those who are working with the microenterprise strategy and understand both its potential and its limitations. Second are those who know nothing or very little about the microenterprise strategy. Finally, there are those who claim to have tried to use the strategy, but believe that it was a failure. The latter two categories exist because of spotty education about the microenterprise strategy and because of unrealistic expectations. The microenterprise strategy is young relative to most traditional economic development strategies, and understanding among policy makers is uneven at best. Myths and misperceptions about the microenterprise strategy arise for three reasons: 1) confusion between US microenterprise programs and their developing world cousins; 2) the perception that microenterprise development creates businesses only in the low-end service sector; and 3) the use of traditional indicators to evaluate the microenterprise strategy.

Confusion about US programs and developing world counterparts

Many economic development practitioners start microenterprise programs with expectations based on reports from programs such as the renowned Grameen Bank, based in Bangladesh. Clearly there are some noteworthy similarities between the contexts and resulting programs that have developed in the US and abroad. These include: a population that is inadequately served by mainstream financial institutions; women who need alternative economic options; and intractable and persistent poverty. Whether in the US or in Bangladesh, more people need credit than can obtain it through mainstream channels. A population of people in both developed and less developed countries exists that has the energy, drive, and wherewithal to start businesses.

At the same time, implementing a microenterprise strategy in a developed country like the US is much different – and in many ways more difficult – than making it work in a less developed country. Perhaps the most significant difference between the two contexts is the prevalence and strength of an informal economy in less developed countries. While an informal sector certainly exists in the US, it is neither as vital nor as accepted here as it is in the developing world. Entrepreneurs in the US need economic literacy in order to deal with the complex regulatory environment surrounding business ownership. Working in the formal economy means filing tax returns; it also may mean completing various licensing, certification, and inspection processes. The formal economy also means that entrepreneurs in the US will generally require more capital and more advanced training than their counterparts in the developing world. The Grameen Bank's average initial loan size is $60; average loan size of our case study programs ranges from $1,160 to $9,885.

The difference in growth rates between US and LDC-based programs also derives from the fact that many of the borrowers served by programs in less developed countries are already entrepreneurs, whereas many of the businesses US programs serve are startups. Programs in the US must allocate much more of their budgets toward training costs, which are expensive, whereas developing world countries can focus on lending, which is cheaper. The necessary emphasis on training in the US means that programs will continue to require heavy subsidization from government and/or private for-profit and non-profit organizations. This difference in the balance between training and lending results in part from the need to work in the formal economy, which requires greater economic literacy than does the informal economy. Training is also more necessary in the US because there is less of a culture of self-employment than in the developing world.

Finally, large, national and international programs characterize the microenterprise movement in LDCs (many of which receive substantial resources from US and internationally based aid organizations), while the microenterprise movement in the US consists mostly of small, local programs. A few US programs have begun to grow aggressively; two of the most notable are Accion and Working Capital, both of which operate in several states. Interestingly, both have strong ties to the international context. All of these factors add up to US programs that are far more expensive to maintain and slower to expand than their LDC sisters. This does not necessarily mean that support for US programs should be ceased. Rather, recognition of the differences in contexts must feed into differences in expectations for these programs.

Type of businesses created

Another misconception is that microenterprise development only produces businesses in the personal services sector, such as hair salons and childcare. Such jobs have a lower impact on

the regional economy than jobs in retail and manufacturing. And, as a rule, microentrepreneurs with limited resources often gravitate to these sectors, because of the relatively low barriers to entry that these sectors present, the small initial capital requirements, and because they tend to require a relatively low skill level. The businesses assisted by the microenterprise programs we studied exhibit greater diversity in the types of businesses started than is often thought.

Of the microentrepreneurs we personally interviewed, less than half of the businesses are in the service sector, as shown in Table 4. It should be noted that we considered Art / Craft as a distinct category, since there are manufacturing, retail, and service components to the business activities that artists engage in, and because so many of our interviewees fell into this category.[4]

Table 4. Sectoral breakdown of businesses, microentrepreneurs interviewed

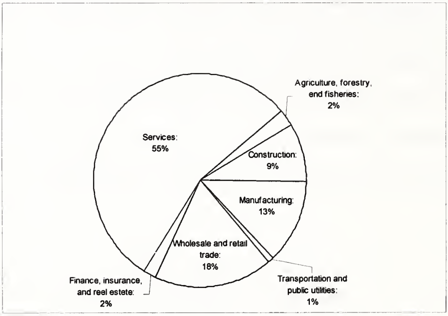
Sector	Percent
Services	48
Retail	21
Manufacturing	16
Art / Craft	16

To further illustrate this point, we examined all of the customers served by one of our case study programs, the Northeast Entrepreneur Fund (NEF).[5] We examined data on the number of jobs created or retained by NEF-assisted businesses from 1993 to 1997. During this period, businesses served by NEF created 461.5 jobs. These jobs ranged across many sectors, from agricultural to small manufacturing to the service sector. As shown in Figure 1, over half were in services. Yet many of these businesses were outside the personal services sector, the

[4] Artists and craftspeople were particularly concentrated in Mendocino County (West Company) and New Mexico (WESST corp).
[5] We chose NEF for this analysis because of the sophistication of this program's database.

perceived dominant sector for microenterprises. Thirteen percent were engaged in manufacturing, where the impact on the regional economy is generally greater.

Figure 1. Breakdown of NEF customer businesses by major industrial group



Businesses in different sectors have different impacts on the regional economy. In order to examine the impact of microenterprise development on this region of northeast Minnesota, we used direct-effect multipliers[6] for jobs from the RIMS II model for the State of Minnesota to calculate the total number of jobs created by NEF customer firms. These findings are presented in Table 5.

[6] It would have been preferable to use final-demand multipliers for the technical coefficients for the input-output model, but we did not have sales figures for most of these businesses. Given the limitations of our data, the direct-effect multipliers were the only way to measure the total impacts on the local economy. The authors recognize the limitations of these multipliers.

Table 5. Direct and Total Jobs created by NEF-assisted businesses, by sector

	Direct Jobs		Multiplier	Total Jobs
Agriculture, forestry, and fisheries:	**11**			
Agricultural products and agricultural, forestry, and fishery services		4	2.4297	9.72
Forestry and fishery products		7	3.8739	27.12
Construction:	**41.5**			
New construction		6.5	2.4173	15.71
Maintenance and repair construction		35	2.1664	75.82
Manufacturing:	**59**			
Food and kindred products and tobacco		10	7.8064	78.06
Apparel		13	1.4825	19.27
Printing and publishing		3	2.2258	6.68
Chemicals and petroleum refining		2	3.396	6.79
Lumber and wood products and furniture		6	2.3333	14.00
Electric and electronic equipment		8	2.4561	19.65
Miscellaneous manufacturing industries		17	2.3308	39.62
Transportation and public utilities:	**4**			
Transportation		4	2.1779	8.71
Wholesale and retail trade:	**83**			
Wholesale trade		1	2.1477	2.15
Retail Trade		82	1.5234	124.92
Finance, insurance, and real estate:	**9**			
Finance		3	2.4764	7.43
Insurance		2	2.8914	5.78
Real estate		4	4.9083	19.63
Services:	**254**			
Hotels and lodging places and amusements		8	1.5288	12.23
Personal Services		91	1.4533	132.25
Business services		78	1.7562	136.98
Eating and drinking places		57.5	1.4442	83.04
Health services		12.5	1.7132	21.42
Miscellaneous services		7	1.8892	13.22
Total		461.5		880.22

Source: Multipliers from RIMS II model; job data provided by program

The total multiplier for NEF's microbusinesses is approximately 1.9. That is, for every job created by an NEF customer's firm, an additional 0.9 jobs are created in the local economy. While this should by no means be seen as the engine for economic redevelopment, it does provide evidence of a positive impact on the regional economy. If the microbusinesses were exclusively in the service sector, we would have expected to observe a multiplier near or below

1.5. The observed result indicates that the range of businesses started has a greater impact on the regional economy than the perception of the microenterprise strategy would lead us to expect.

Use of inappropriate indicators

A third reason why microenterprise development is not a more standard strategy in the economic developer's toolkit is that it does not perform particularly well using traditional economic development indicators. Using these indicators, the scale of the strategy seems too small and the time horizon too long. Microenterprise programs do not generate jobs as quickly or in as great quantities as do more traditional economic development strategies. Industrial recruitment, for example, can bring hundreds or even thousands of jobs to an area in a single plant. On average, the programs we studied serve several hundred (maybe a thousand) clients each year. Although this number is relatively small, staff at microenterprise programs believe the businesses they serve are less footloose than those that have no ties to these regions. In addition, these businesses can take several years to start, stabilize and grow. Given that most mature US microenterprise programs are less than ten years old, we cannot yet determine the long-term impact of these programs on the regions in which they operate.

Microenterprises create few jobs aside from their owner. Of the 58 entrepreneurs we interviewed, only 17 reported having any employees. The 17 businesses reported a total of 41 part-time and 28 full-time employees. Microenterprises also tend not to generate high income for their owners. Of the entrepreneurs interviewed who reported monthly income figures (about half), the mean income was $2,615 per month - roughly $31,385 per year. However, an examination of the distribution of incomes reveals a large number of families with monthly incomes below $1,500. The *median* income in our study group was $1,838 per month. The

SELP study had similar findings: participants reported a median annual income of $29,054, with 20 percent reporting annual incomes below $6,000.

However, such traditional economic evaluation techniques overlook the second- and third-order outcomes that these programs produce. These will be discussed in greater detail in the following section. In addition, it is important to recognize that using traditional economic development evaluation techniques creates a mismatch between measurement and goals: the microenterprise strategy is characterized by its combining of economic development goals with social welfare goals (Servon 1997).

Another factor is the fact that most microentrepreneurs are not looking to create Fortune 500 firms. Their goals tend to be much more modest: exiting welfare, having enough income to support their families, and being able to afford "extras" for their kids were some of the reasons offered. One entrepreneur from Mendocino County who makes and sells cards said:

> I had a modest goal just to get a few shops and some supplemental income on this business that I could do at home with my children near me. That was very important to me. . . I wanted to work near my kids.

This entrepreneur from Duluth who owns and operates a toy store had similar motivations:

> I would like to have my own house. Financially, I would like to be better off – to be able to provide for myself and for my kids. To stand on my own and say, 'here I am.' I don't know if I'll ever be well off, but I'd like to be on my own.

Traditional evaluation techniques fail to allow room for clients' definitions of success. A recent study published by ACCION, however, shows that there is a strong relationship between what clients set out to do and the outcomes they ultimately achieved (Himes and Servon 1998).

Evaluating Microenterprise: Qualititative Analysis

The findings presented here draw on our fieldwork and build on other earlier research (Servon 1997). Although the microenterprise strategy can be compared with other strategies within the traditional economic development lexicon it does not fit easily into the traditional economic development policy sphere. Our qualitative work focused on three areas: 1) the second and third order outcomes that microenterprise development produces; 2) the that microenterprise practitioners view their economic development work; and 3) how microenterprise development fits within a larger economic development plan.

Second and Third Order Outcomes

Field experts and program staff relayed significant anecdotal evidence that the microenterprise strategy produces important second and third order outcomes that contribute importantly to the economic health of a region. According to Sikes:

> Even if the person doesn't start a business, there is a substantial increase in income or other things that you can't measure one to one but they're definitely linked—abuse, drugs, violence problems. People go through training and pick up basic life skills in training courses that they didn't have before.

Barbara Johnson, executive director of San Francisco-based Women's Initiative, emphasizes the population of people microenterprise programs tend to serve:

> Who is the economic actor? Who owns the business? You are opening up to very low-income women in some cases and that is very interesting. We need to look at changed relationships and who is relating to markets. We do count noses and dollars and hours, and yet our focus is on women changing their relationship to the market. So if you looked only at quantity rather than trajectory . . . you are really missing the boat.

The field experts we interviewed believe that people become better employees by going through the training component of microenterprise programs. Many programs have found that

during their training, participants often realize that they are not ready to start businesses or that self-employment is not the best option for them. The training, however, provides them with a broad range of skills that are transferable to other arenas. Those who do not choose to pursue self-employment obtain the skills and self-confidence to use other routes, such as mainstream employment, to achieve self-sufficiency. Writing a business plan – which the majority of programs require – calls for research skills, writing skills, and the ability to work with numbers in order to forecast costs and sales. Participants' ability to present their ideas out loud and on paper, clearly and convincingly, is an important skill developed. Even if they do not start businesses, the experience of going through microenterprise training appears to give people who are disconnected from the labor market a critical jump-start. Asked what she would be doing if she had not gone to ISED, one entrepreneur replied:

> I'd be sitting at home . . . It changed my whole state of mind, my mental and physical attitude. It makes you get up, get the kid off to school, go to the library and do the research for the business . . . It was kind of like therapy.

Those who do not pursue self-employment often look for a regular job, and these skills can make the difference between success and failure on the job market. Jack Litzenberg, director of the Charles Stewart Mott Foundation and a longtime supporter of the microenterprise strategy, calls microenterprise programs "the best adult education programs in the country." Most programs do not track the paths of participants who do not finish programs or who do not pursue self-employment. The extensive anecdotal evidence in this area makes it a ripe topic for research.

Staffers at all six of our case study programs also believe that those who do go through training but do not start businesses bring valuable skills with them to the workplace. ISED is currently working on ways to formalize these links to this group of clients and the mainstream economy. ISED is currently considering how to help clients who have been through the program

but are not ready to become entrepreneurs, to use the skills they have learned in the program. Jason Friedman, Vice President at ISED, has begun to conceptualize the creation of a network comprised of employers who would be willing to interview those who have completed ISED's training. ISED would effectively provide a screen for these employers.

Whether or not clients start businesses, many of the low-income interviewees claimed that they were attracted to self-employment training because – unlike welfare-to-work programs and traditional job training programs – microenterprise programs prepare people for work that offers them hope. Microenterprise programs train them to think critically, prepare them for jobs they want to do, and perhaps most importantly, help them to think about themselves and their careers in a long-term way.

How practitioners view their economic development work

Case study program staff and field experts discussed with us how they view their work in the context of economic development. Most felt that parts of their programs fit into traditional economic development definitions, but they also believed that the scope of what the microenterprise strategy does presents a challenge to the standard conceptions of economic development. The following three quotes come from a focus group with microenterprise program directors, including directors of some of our case study programs:

> We certainly do economic development. We are in an area with high unemployment rates and we are trying to stabilize out-migration. One of the things we are geared towards is having our small businesses capture dollars from other parts of the nation.
>
> Those of us doing grass roots community work don't want that [traditional definition] imposed on us. But I am not sure the answer is to redefine that, or saying we need to expand the measurement.
>
> Traditional measures miss accounting for any network the entrepreneur is in, and how that begins to change communities.

We also asked field experts and program staff what they thought government officials needed to know about the microenterprise strategy. One said that she has used the following strategy to deal with the economic development officials in her region:

> What we have done is built a relationship with economic development language, and then after a few years, they see what is happening. You begin to help people think more complexly about these things, and you find the most innovative thinkers, and talk to them.

Another described her approach:

> First we find the folks who understand the complexity of any kind of development. Telling them this is not the silver bullet is a relief to them, because they don't think you are trying to sell them the magic cure. What we put in is the vehicle, the approach, and the self-employment is the burning in of the practices.

For the most part, those that have worked to create good relationships with their local economic development officials have benefited from some luck because the officials in their area have been responsive and willing to try a new strategy. In all cases, program staff have had to educate public officials about how the microenterprise strategy contributes to economic development. Programs that are younger and stretched thin in terms of resources are less likely to be able to devote time and energy to the education of public officials.

Microenterprise within the broader context of economic development

In states where the microenterprise strategy has already been implemented into the larger economic development plan, critical people at the local, regional, and/or state levels have recognized the existence of a gap in business development services for very small businesses and disenfranchised groups. Program staff and members of our advisory board repeatedly emphasized that the microenterprise strategy is not *the* solution. Rather, it is one part of a solution. According to Christopher Sikes of the Western Massachusetts Enterprise Fund:

> If [you're] looking at this as an employment strategy it is no good. If [you're] looking at it as economic revitalization it's good. They don't hire but they hire

> out subcontractors, piece work, marketing materials, etc. They're doing all of this work that is basically subcontracting work and is basically economic revitalization. It is one strategy. It is part of a much larger piece. When it is used well, it works well. When it is used as a panacea, it works poorly.

Jack Litzenberg, a program director at the Charles Stewart Mott Foundation[7], added to this sentiment, describing the microenterprise strategy as a tool to be employed during a difficult economic time until the economy improves:

> Microenterprise is not going to provide the wage income of a job in areas where people are hunting for a job and the jobs aren't there. It can provide some income and an alternative to work activity rather than a lot of jobs. The way I would position it in distressed areas is to ask, 'Can we use this process to gain work experience, as a way to have a positive educational experience, to ride out the bad economic time.' It's a patching strategy for when people are out of a manufacturing job and may later be employed in a non-manufacturing job.

To illustrate how the microenterprise strategy has been incorporated into a larger economic development plan, consider one example from our fieldwork. In Iowa, ISED was initiated with a contract from the state Department of Human Services to provide entrepreneurial training to welfare clients. As the program evolved, ISED received contracts with the Iowa Department of Economic Development (DED) to provide entrepreneurial training in rural communities. Although this relationship led to some initial resistance from the state's Small Business Development Centers (SBDCs), the relationship between the state DED, the SBDCs, and ISED has evolved to a point where the three entities are working together.

David J. Lyons, Director of the Iowa Department of Economic Development, sees his agency's role as providing service for all possible business ventures in the state:

> What we try to do in Iowa is to ensure that the proper spectrum of support is in place, from small business to Fortune 500 status. From programs of loan funds, of training programs, we guarantee that whatever a business could need is incorporated somewhere in our spectrum of services.

[7] The Mott Foundation is a major and long time funder of the microenterprise strategy.

In addition to the entrepreneurial training provided through contracts, the state runs the Self-Employment Loan Program (SELP)[8] that provides loans to self-employed residents. Started in 1987 as part of the JTPA program, SELP makes loans up to $10,000 to self-employed residents. Again, Lyons sees SELP as part of the continuum of economic development programs in the state. He notes that a strong economic development agency must have the tools to help the entire range of businesses it serves:

> Here we have a very broad definition of economic development, so our tool set has broadened. Our mission statement tasks us with improving the quality of lives of Iowans through economic opportunity. For some people that will be the opportunity to get a job at the new company that has located in their community. And other people, its going to be the ability to start their own business. For other people, it's going to be the ability to get off of welfare and into work. Our goal is to be a mirror. If someone says to themselves, I really want to do this, and I think it makes economic sense to get off of welfare and start my own business, they should turn around and say the Department of Economic Development is just what I need. And a CEO, who needs to build a 250,000 square foot addition, he should look at us and find exactly what he needs. If we are going to be that kind of virtual agency, we need extremely broad tool sets.

We also found cases where microenterprise development has been integrated into larger economic development programs. In all cases, a lead organization – be it a microenterprise program like ISED or a statewide intermediary like the Nebraska Enterprise Partnership Fund – was crucial in coordinating and leveraging public support for microenterprise development. These lead organizations are characterized by a commitment to the strategy, an understanding of what it takes to implement microenterprise development, and extensive knowledge of their regional economic context.

In Baltimore, Albuquerque, and Mendocino County, public loan funds for small business had been started, and all three programs failed. These purely public attempts lacked one or more of the ingredients listed above. As one person from the city of Albuquerque noted:

[8] This SELP is different from the Aspen Institute research project discussed elsewhere in the paper.

> Public agencies shouldn't get involved with direct lending to businesses. It's way too political. We've found it far better to support proven programs, and let them decide which businesses to support. They know what it takes to succeed, far more than we do.

Recommendations

Clearly, microenterprise development has a place within the larger spectrum of economic development strategies. Drawing from the work above, we offer recommendations in three key areas: Education, Integration, and Evaluation.

Educate economic development planners and policy makers

All of the program directors we interviewed who have crafted strong relationships with government officials have done so by educating these officials. Funders and the federal government can help in this area by publishing reports and sponsoring workshops that teach local and regional officials about the ways in which the microenterprise strategy can be a part of a larger economic development plan. Although there is a critical cadre of policy officials at the major federal agencies – HHS, SBA, Commerce, and HUD – who understand and support the microenterprise strategy, this knowledge has filtered down unevenly to state and local levels, and efforts among these federal agencies lack critical coordination. The public officials we spoke with who put little stock in the microenterprise strategy tended to relay to us the same myths that field experts are working to debunk. These include the myth that microenterprise development is primarily about making loans. The myth that the microenterprise strategy is the answer to the welfare reform problem. The myth that microenterprises grow into large businesses and employ lots of people. As well as the myth that the microenterprise strategy is a solution for lots of economic ills. Welthy Soni, executive director of Business Start, claims that it is time for policy

makers to catch up to practitioners in terms of their understanding of what the microenterprise strategy can and cannot do:

> The field as a whole has come to recognize that not everyone is cut out to be an entrepreneur. The field is more pragmatic. But there are a lot of trends in this country with downsizing and changes in the way the workplace looks. There is a great deal of entrepreneurship so microenterprise development is on the cutting edge. But there is a lag in terms of funders and policy makers in realizing this. Practitioners are always first. Legislators like to have successes and like to have endings. When they don't see change immediately, they want to cut it.

Policy makers need to be educated about what, specifically, the microenterprise strategy can do, and use it appropriately in their larger visions for economic revitalization.

Integrate the microenterprise strategy into a larger economic development solution.

Microenterprise programs will not solve the problems of economically distressed regions alone. These programs are, however, one key piece of a larger puzzle. This research shows that the microenterprise strategy produces positive results in a range of different types of distressed regions. To be effective, this strategy must be packaged together with other complementary programs specific to the region and its problems. Coordination among these programs is extremely important. Litzenberg believes that the ideal microenterprise program is:

> ...one that has adapted to its own culture, and that connects with people who lend at higher amounts. It is one that understands that there needs to be a continuum of capital in low-income communities. It is sustainable even if it is not self-sufficient. It should also have a feature of providing a support system to the client, and it should collaborate well with the community. Successful programs do not try to do everything themselves.

Some programs, such as ISED, work closely with their state departments of economic development. Others, such as West Company and the Northeast Entrepreneur Fund, participate in regional economic development networks that help to coordinate these sorts of efforts. We found that the quality of relationships between state and local level officials and microenterprise

programs varied and depended greatly on how receptive public officials were. As part of the education effort that we support, Federal officials can help to broker relationships between programs and the local officials who can provide support. Forming state intermediaries is one way, but not the only way, to do this.

State level intermediaries are a relatively new form of organization in the microenterprise field. Intermediaries are state-level organizations that raise federal funds to support the microenterprise strategy, use that to leverage state funds, and channel these resources to local microenterprise programs throughout the state. Intermediaries are new in the microenterprise field and are as yet unproved.[9] Early lessons from Montana and Nebraska (the states with the most mature intermediaries) suggest that this type of organization has several benefits. It relieves some of the pressure to raise funds from the local microenterprise program. Intermediaries do not compete with local programs for funding, but instead pursue sources that the local programs have trouble accessing. Intermediaries also relieve the funder of the burden of evaluation.

Support the design and use of appropriate evaluation.

The diversity of programs speaks to the useful flexibility of the general strategy and the ways in which local programs have adapted themselves to the contexts in which they operate. It also should serve as a warning that all programs are not equal and should not be judged by the same standards.

An appreciation of the malleability and resulting variety of program types will have to be built into evaluation. Given the fact that microenterprise development is a long and complex process that is not yet fully understood, longitudinal evaluation that tracks clients of these

programs is critical. Further, techniques must be devised that will track the second and third order economic development outcomes discussed above, as well as the specific connections between these outcomes and more traditional economic development outcomes. Finally, given the anecdotal evidence that suggests that program clients who do not start businesses also receive significant benefits from the training component of programs, it will be necessary to follow this group and gain an understanding of how the experience of participating in the microenterprise strategy affects them. Program staff and field experts have made it clear that they want to take a lead role in the design of appropriate measurement. Sikes asserts that:

> We need the federal government to accept a standard of performance nationally. But we don't want the government to provide it. We want to provide it. They don't have the experience to create those standards. Practitioners do.

The Aspen Institute's Self-Employment Learning Project (SELP) has been engaged in evaluation work for several years - primarily the SELP Longitudinal Study of microentrepreneurs. In 1997, the Aspen Institute undertook the beginning of a major evaluation effort for the whole microenterprise field called MICROTEST. Recognizing the continued development and increasing diversity of programs in the field, leaders in the field are now seeking to clarify and define what is meant by a high quality microenterprise program, though appropriate performance measures.

Microenterprise, in the MICROTEST concept paper, was defined as "training, technical assistance, and credit in small amounts to disadvantaged entrepreneurs in order to boost their incomes, to create or grow businesses, and to support the broader growth of their communities". From these basic ideas, six key areas for performance measures have been identified:

- Reaching Target Groups

[9] The intermediary as an organizational type has grown in the community development field. The Ford Foundation, LISC, and the Enterprise Foundation, all support city-level intermediaries that monitor and fund local CDCs, as well as raise and leverage funds for these organizations.

- Program Scale
- Program Costs and Cost Efficiency
- Program Performance (Credit Portfolio and Training Program)
- Program Sustainability and Internal Cost Recovery
- Outcome and Impact

The stated purpose of MICROTEST is to establish a working group of microenterprise practitioners and researchers who will develop and test a set of performance measures for the microenterprise field. Over the long run, this process should improve microenterprise services by encouraging programs to regularly measure performance.

In the first year of MICROTEST, a core group of 15 member programs was chosen. A larger group of associate groups were also asked to participate in discussions, but not be expected to use and test these new performance measures. To date, measures for the first four above areas have been developed, tested, and refined; work continues on the remaining two areas. Two training workshops have been held for core members, and a newsletter is regularly published. Most importantly, the core and associate members have implemented an email-based discussion group for the open discussion of these measures.

Conclusion

The microenterprise strategy can play a critical niche role in the larger economic development plan for distressed regions. This strategy works if it is well integrated into the larger economic development plan of a region, if economic development policy makers understand its potential and limits, and if it is judged using appropriate measures. Maximizing the potential of the microenterprise strategy requires expertise on the program side and an understanding of the role that the microenterprise strategy can play from those who create economic development policy at the state, local, and regional levels. According to Malcolm Bush of the Woodstock Institute, “the microenterprise strategy is creative and relatively cheap.”

The risk of trying it, therefore, is not especially great. Because the microenterprise strategy does not fit into easily into traditional notions of what constitutes economic development, it requires some vision and imagination, a willingness to experiment, and patience, because results do not appear overnight.

To see a copy of the full report, please visit EDA's website: *www.doc.gov/eda/html/reports_pubs.htm*
"Microenterprise Development as an Economic Adjustment Strategy."

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